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complete or partial inability of exercising a counter-influence, is the essential feature of the supremacy impact considered by us"<sup>3</sup>:

The supremacy impact of the Soviet Union is conditioned by numerous factors of which only a political and an economic one may be mentioned here: the political dependence of the COMECON countries on the USSR and the comparatively small importance of Soviet foreign trade in relation to the country's national income. Even if it is assumed that the Soviet Union does not deliberately display its supremacy, the impact of supremacy would unintentionally still exist according to the meaning of Perroux's theory. It is doubtful, however, whether in this case one can still speak of discrimination. Having this reservation in mind, the theoretical approach therefore appears to be suitable to support the thesis of direct as well as

<sup>3</sup> Perroux, François, *Advance of a Theory of a Dominating Economy*, in "Zeitschrift für Nationalökonomie", Vol. 13, 1952, Page 5/6.

of indirect discrimination by the Soviet Union against the other COMECON countries.

Summing up it can be stated that there are many indications of Soviet discrimination against the other COMECON countries, though—apart from individual cases which are not representative for total trade between them—no clear evidence can be offered. Particularly in connection with the thesis of indirect discrimination the catchword "close economic community" of the German Democratic Republic and the USSR deserves attention. During his visit to Central Germany Mr Mikoyan said meaningfully in Chemnitz that the programme for developing the USSR included plans until 1980 for Soviet supplies to Central Germany as well as Central German exchange deliveries to the Soviet Union.<sup>4</sup>

<sup>4</sup> Brauer, Rudolf: "Theoretical and Political Ideological Questions Relating to the Establishment of a Close Economic Community of the German Democratic Republic and the USSR" in "Wirtschaftswissenschaft", Vol. 10, 1962, Page 195.

## Competitiveness of German Steel Industry

By Rolf Stuchtey, Hamburg

**D**uring recent months, the formerly very favourable German business climate has generally become much harsher. After coal mining had shown clear symptoms of a crisis for some time already, Germany's iron and steel industry is experiencing the same trend. Collieries and steelmills live in close interdependence both technically and economically, so that their respective destinies influence each other.

In 1966, the decisive feature in the German iron and steel situation has been the widening gap between costs and proceeds, caused by mounting expenditure, on the one hand, and increasingly ruthless competition, on the other hand. Annual deliveries have not contracted, their volume having remained almost unchanged at the level of about 36 million metrical tons. Representatives of the iron and steel industry consider such a sales level to be quite satisfactory. But the maintenance of this volume of delivery was possible only under conditions of prices that have been successively marked down, thus reducing the industry's profit margins. Declining prices are an indicator for the keenness of competition prevailing between German and foreign suppliers (the latter from within the ECSC).

German iron and steel makers have lost some of their competitiveness during recent years—this is shown by the continued progress made by suppliers from other ECSC countries in satisfying growing parts of German demand. In 1955, the share of iron and steel supplies bought by West German users from Germany's partners in the European Coal and Steel Community, amounted to a bare 10%, but today, this share amounts to no less than 25%.

This situation as described for the domestic market applies to all the countries of the ECSC. The drop in sales proceeds is even larger in third countries above all in European states, which, however, do not belong to the ECSC.

One explanation for the lack of expansion in sales volumes and for the declining prices is the fact that above a certain ceiling of development growth rates of steel consumption in a given economy will no longer be proportional to those of the Gross National Product but will be subject to a steady decline. Steel consumption per head of population is reaching an upper limit then, which fluctuates between 500 and 600 kilogrammes annually (1,100 and 2,200 lbs.) approximately. Other industrial materials are threatening steel with replacement; thus the inroads of plastics into the steel markets have even initiated a trend in steel consumption per head (in absolute terms) which points downwards. At the same time there are countries which had a tradition of iron and steel imports, but are now creating their own iron and steel industries, thus former foreign sales outlets of the German steel industry are lost.

### Distortions of International Competition

One of the causes of the reduced competitive vigour of the German iron and steel makers are the distortions of competition as between the various member countries of the ECSC. There are especially two separate circumstances which exert an adverse influence on the German iron and steel industry:

□ Taxation system and tax burdens are partly very different in the individual member states of the ECSC.

In order to make allowance for this through certain compensating measures and to create approximately equal starting conditions, the Federal Republic of Germany is levying a so-called Turnover Equalisation Tax when importing from other ECSC countries. This Equalisation Tax is intended to bring about an adjustment to the German taxation system, especially to the Gross All-phase Turnover Tax. But this attempt at equalising burdens has a deleterious effect on German iron and steel production, as turnover taxes levied on German products are higher than the Turnover Equalisation Tax on equivalent imports. In former days, this difference was justified by the high surpluses of its balance of payments earned by Federal Germany. In order to reduce inflows of foreign currency imports were to be promoted intentionally. The position regarding the balance of payments, however, has since changed fundamentally and this motivation has lost its cogency.

To even out the differences in taxation for creating true equality of opportunity for all suppliers, harmonisation of all taxes among ECSC member states has long been advocated. A major step in this direction would be the replacement of the German Gross All-phase Turnover Tax by a Tax on the Value Added in all the ECSC countries.

□ Another and probably most important disadvantage for the German iron and steel industry in meeting foreign competition are the high energy costs it has to pay. They are caused by energy protectionism dominating Federal German economic policies. Prices for German coking coal are between DM 8 and DM 22—varying according to the geographical position of the blast furnaces and the quality of the coal required—dearer than those of US coking coal under conditions of duty-free imports. The average price gap, thus, will be DM 15 per ton. As the share of energy cost in total iron and steel production costs is relatively high, since for making a ton of crude steel (1,000 kilogrammes), even today 690 kg of coking coal have to be used, differences in energy costs make for decisive distortions of competition.

Other suppliers among members of the ECSC, especially Italy, Belgium, and the Netherlands, are profiting from low import prices for coal, as their steelmakers are burning imported coal almost exclusively. The obvious consequence is that these countries are competitively much stronger with steel than Germany. The German steel industry has made two alternative proposals for obviating this form of distorted competition: either US coal should be admitted duty free into Germany in unrestricted quantities, or German coking coal prices should be reduced through subsidies. To German steelmakers, it is indifferent in the long run which of the two suggestions would be adopted. In view of the aims of the ECSC to work for a full liberalisation of the coal, iron, steel, and scrap trades as between member countries, free entry of US coal would be preferable, for duty-free entry of American coal would be another step towards full liberalisation of world trade. On the other hand, subsidisation of coking coal from the Ruhr pits would mean that liberalising the steel markets would have to be paid for with an indirect de-liberalising the markets for coal at least.

Frequent objections against using cheap US coal for making steel in Germany argue that rising demand for American coal would drive up both its price and freight charges between the US and the European continent, whilst German iron and steel makers, in addition, do not possess sufficient coking plant capacities for making coke from large quantities of American coal. But rising American coal prices are out of the question as long as American coal exporters remain willing and able to make long-term delivery contracts at today's prices. Even should this willingness disappear, the effect need not be rising prices, because American collieries are able to increase their production vastly within a short period, and without progressive cost increases, and moreover, American coal reserves are so immense and situated so favourably that their exhaustion cannot be expected for many years to come.

It is equally doubtful whether freight rates will rise, as total transport outlay depends more on handling capacities available in the ports than on ocean freight rates. The renewal of a distinctively bullish sea freight market, as obtained during the Korea and the Suez crisis, is hardly to be expected, as even the fighting in Vietnam has caused only a very moderate rise in Far Eastern freight charges.

In the long-term, on the contrary, it is to be expected that tramp shipping rates will ease further, as the trend towards larger vessels is particularly noticeable in the market for transporting bulk goods between the US and European continental ports. American loading terminals for coal are deep water ports already now, and Rotterdam is to be adapted to ships up to 200,000 dwt until the end of 1967, which means that port handling capacities will not create any bottlenecks. Incidentally, steelmakers are insuring already today against the risk of rising freight rates for ore transport by using their own bottoms (concern-owned shipping firms), or independent owners' ships under long-term charter. It is of course possible to follow the same policy in transporting coal.

Difficulties in carbonising US coking coal in Federal Germany can be overcome by German coke oven plants owned by German steelworks taking over processing themselves, or by the construction of new coke oven batteries directly adjacent to pig iron production. The latter expedient will have the advantage to cut freight costs for coke transport between coke ovens and smelters.

### **The Rising Costs of Iron and Steel Making**

Declining proceeds of iron and steel makers are opposed to their rising costs. A cause of this discrepancy is the dichotomy between the rise in labour productivity and the increase of money wage rates.

Over the last five years, productivity per hour worked in steelmaking increased by 3.4 % annually on average, but gross hourly earnings increased in the same period by 7.7 % p.a., at more than double the rate. This means that wages are perpetually pressing costs upwards.

Pressure in the same direction has recently been exerted by uncommonly high capital expenditure. Rising interest rates were a double disadvantage for the costs of the iron and steel industry—by adding directly as cost component to production costs, and, on the other hand, due to the narrow capital market investment activities of the German steel industry are effectively slowed down. It is often found impossible to make new investments for the purpose of indispensable rationalisation, in order to adapt the steelworks to a changed structure of demand. This means that, in the long-term, the competitive power of the steel industry is suffering even more.

#### Measures To Improve Competitiveness

Iron and Steelmakers are proposing three sets of measures for improving their competitive powers:

1. Making the Turnover Equalisation Tax equivalent to the actual domestic Turnover Tax incidence;
2. a reduction of the energy costs through admitting duty-free imported, or subsidising German, coal for making coke, and
3. the formation of Rolled Steel Selling Agencies ("Walzstahl-Kontore") as a step, towards rationalisation over and above the individual firm.

The first two proposals have already been discussed. The third step foresees contractual agreements between 31 individual German steel enterprises. They are to form, among themselves, four separate Rolled Steel Selling Agencies, which will serve the following groups:

Northern Group—four members,  
Ruhr-Western Group—12 members,  
Ruhr-Eastern Group—7 members,  
Southern Group—8 members.

These joint "Walzstahl-Kontore" are to strive towards attaining three main objectives:

☐ Instead of the 31 enterprises individually, the Agencies are in future to sell the products of the Group served by each jointly and in coordination.

This means that the future Agencies will sell, for and on behalf of the producers, at list prices posted by the agency itself.

☐ Future investments are to be agreed among the Group members. This has the purpose to adapt capacities, which are internationally too high, to changes in demand. Existing capacities are to be optimally utilised, if possible, up to 80 %. Future investments are thus to be made dependent on market developments, using as the main basis of prediction the assessments of the ECSC High Authority.

☐ Within the Agencies, agreements on rationalisation and specialisation of production are to be worked out between members. Every agency will attempt to combine new orders in optimal packets for rolling, thus tending to cut production costs. Obsolete capacities are to be closed down, which will enable member firms to utilise modern facilities with lower costs to a higher degree.

Forming these Agencies might lead to cost cutting along three different roads:

☐ Freight charges could be reduced considerably for deliveries would always be carried out by the member whose geographical position is most favourable in relation to customers;

☐ Stockpiling costs and production charges might be reduced, as stocks held by suppliers could be reduced considerably, and individual producers would approach more narrowly their optimal batch volume for production;

☐ Merging the marketing divisions of 31 separate enterprises into four selling organisations will also lead to a lowering of the other marketing costs.

The planned form of cooperation will hardly interfere with competition, as the four Agencies will continue to compete in the inland market, and relatively high steel imports into Germany will also keep them on their toes competitively.

Whether the projected four Selling Agencies for Rolled Steel Products will actually be created depends on the decision of the High Authority, which is expected early in 1967. However, the High Authority has never objected, on principle, against the formation of such instruments of business cooperation.



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